

Message Text

CONFIDENTIAL

PAGE 01 KUWAIT 01337 01 OF 02 261329Z

50

ACTION SS-25

INFO OCT-01 ISO-00 /026 W

----- 110228

P R 261226Z MAR 75

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC PRIORITY 2593

INFO AMEMBASSY ABU DHABI

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY TEHRAN

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 1 OF 2 KUWAIT 1337

EXDIS

E.O. 11652: GDS

TAGS: ENRG, KU

SUBJECT: GULF/BP TALKS WITH GOK

REF: A. KUWAIT 1160 (NOTAL) B. LONDON 04366 (NOTAL)

SUMMARY: GULF AND BP RESUMED NEGOTIATIONS WITH GOK MARCH 24
LEADING TOWARDS POSSIBLE 100 PERCENT GOK TAKEOVER OF KUWAIT OIL
COMPANY. COMPANIES PREPARED DO UTMOST TO FOLLOW UNDERSECRETARY'S
ADVICE TAKE FIRM LINE WITH GOK BUT GULF IN PARTICULAR WANTS
AGREEMENT WITH KUWAIT IF THERE IS ANY WAY IT CAN GET ONE ON REASON-
ABLE TERMS. AT SAME TIME GOK MAY BE PREPARED MAKE SOME CONCESSIONS
BUT APPEARS DETERMINED TO ESTABLISH FULL OWNERSHIP WITH OR
WITHOUT AGREEMENT COMPANIES. EMBASY DOUBTS FORMAL USG APPROACH
TO GOK AT THIS TIME WOULD BE SUCCESSFUL, BUT WILL TAKE FEASIBLE
OPPORTUNITIES HERE TO INDUCE REASONABLE ATTITUDE ON PART OF
KUWAITIS. END SUMMARY

1. PETE RALSTON, EXECUTIVE VP GULF, AND BRYAN MARSON-SMITH, BP
TRADING, CALLED ON AMBASSADOR AND DCM MARCH 25 TO REPORT DISCUSSIONS
MARCH 24 WITH GOK RE TWO COMPANIES' REMAINING EQUITY IN KUWAIT
OIL COMPANY. RALSTON ADVISED THAT GULF CHAIRMAN DORSEY HAD
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 KUWAIT 01337 01 OF 02 261329Z

MET WITH DEPUTY SECRETARY INGERSOLL LAST WEEK AND THAT COMPANY

HAD BEEN ASKED TAKE FIRM LINE AND STRETCH OUT TALKS. HE SAID BOTH GULF AND BP UNDERSTAND DESIRABILITY SUCH ACTION FROM GLOBAL INDUSTRY STANDPOINT, AND WILL DO UTMOST TO FOLLOW THIS GUIDANCE. IN FINAL ANALYSIS, RALSTON SAID, GULF WILLING AGREE TO GOK TAKEOVER ITS REMAINING ASSETS AND TO ENTER INTO LONG-TERM CRUDE CONTRACT WITH KUWAIT IN EXCHANGE FOR GOK PAYMENT OF REASONABLE SERVICE FEES OR DIFFERENTIAL ON CRUDE PRICE. BOTH COMPANIES RECOGNIZE RISKS INVOLVED IF THEY SHOULD MAKE SEPARATE SETTLEMENTS.

2. ACCORDING RALSTON, CHIEF GOK NEGOTIATOR AT THIS STAGE REMAINS ALI KALIFA, HEAD OF OIL ECONOMICS SECTION OF MINISTRY OF OIL. AT MARCH 24 MEETING ALI KALIFA MAINTAINED HARDLINE FIRST EXPRESSED MARCH 12. OFFERED ONLY TWO CONCESSIONS PROVIDED AMICABLE SETTLEMENT REACHED: COMPANIES WOULD BE COMPENSATED AT NET BOOK VALUE (APPROXIMATELY \$25 MILLION EACH -- WHICH IS SLIGHTLY LESS FAVORABLE THAN 1974 SETTLEMENT TERMS); AND BOTH WOULD BE GIVEN PRIORITY CONSIDERATION ON ACCESS TO OIL. GOK NO LONGER PRESSING FOR THE "CONTRIBUTION" OF COMPENSATION TO KUWAIT UNIVERSITY BUT CLEARLY WOULD LIKE GULF TO UTILIZE COMPENSATION FUNDS IN SOME FORM OF JOINT KUWAIT-GULF VENTURE.

3. GOK ALSO HAS AGREED TO DISCUSS IN PARALLEL, BEGINNING MARCH 26: LONG-TERM CRUDE CONTRACT; AND, SETTLEMENT FINAL ACCOUNTS FOR COMPENSATION AND BUY-BACK CRUDE IN 1973, TAX AND ROYALTY PAYMENTS APPLICABLE TO LPG IN 1974, AND POSSIBLE CONTINUATION FOR 30-60 DAYS OF BUY-BACK ARRANGEMENTS WHICH HAVE PREVAILED DURING FIRST QUARTER 1975. (THE SPECIFICS OF 1ST QUARTER BUY-BACK ARRANGEMENTS STILL NOT AGREED, PARTICULARLY FOR MARCH 5-31 PERIOD). MOST PRESSING IMMEDIATE ISSUE IS WHETHER COMPANIES CAN OR SHOULD CONTINUE TO LIFT AFTER APRIL 1. BOTH COMPANIES AGREE CONSIDERABLE SUM WILL REMAIN OWED TO GOK FOR PERIOD 1973-1974, BUT PRECISE ACCOUNTING IS YET TO BE WORKED OUT.

4. BEGINNING MARCH 27, COMPANIES HOPE TO BEGIN DISCUSSIONS OF CONCESSIONS GOK MIGHT MAKE TO SATISFY COMPANIES' REQUIREMENTS TO SHOW SOME ECONOMIC BENEFIT TO STOCKHOLDERS FOR AGREEING TO VOLUNTARY NATIONALIZATION. APPARENTLY INCLUDED IN COMPANIES' "BAG" ARE EVERYTHING FROM PROPOSED REAL CONCESSIONS (EXTENDED CREDIT TERMS) TO LESS TANGIBLE BENEFITS OF ONLY PUBLIC RELATIONS CONFIDENTIAL

CONFIDENTIAL

PAGE 03 KUWAIT 01337 01 OF 02 261329Z

VALUE. AT SAME TIME, COMPANIES HOPE DEVELOP BETTER APPRECIATION FOR WHAT OF VALUE, IF ANYTHING, CAN BE NEGOTIATED UNDER LONG-TERM SERVICE CONTRACT ARRANGEMENT. TWO OFFICIALS ALSO HOPE TO MEET THAT DAY WITH OIL MINISTER KAZEMI, BUT ARE NOT CERTAIN HE WILL HAVE RETURNED FROM PRESENT VISIT TO SAUDI ARABIA.

5. JOHN SUTCLIFFE OF BP WILL ARRIVE IN KUWAIT MARCH 28. HE AND RALSTON HAVE TENTATIVE APPOINTMENT TO MEET WITH CROWN PRINCE/

PRIME MINISTER ON MARCH 29. BOTH COMPANIES BELIEVE (WE CONCUR) PRESENT HARD LINE BEING TAKEN BY GOK IS DIRECT RESULT OF DECISION TAKEN BY CROWN PRINCE. BOTH BELIEVE (WE ALSO CONCUR) ALI KALIFA IS ACTING UNDER DIRECT INSTRUCTIONS FROM CROWN PRINCE AND THAT NEITHER OIL MINISTER KAZEMI NOR OIL UNDER SECRETARY ADASANI HAVE MAJOR INFLUENCE. COMPANIES INTEND TO APPEAL TO CROWN PRINCE AS LAST RESORT. SUTCLIFFE AND RALSTON WILL REMAIN IN KUWAIT THROUGH MARCH 30 (DATE OF NEXT SCHEDULED CABINET MEETING). IF NO CHANGE IN GOK POSITION EVIDENT BY THAT TIME, THEY INTEND SEEK BREAK IN NEGOTIATIONS AND RETURN HOME FOR FURTHER INSTRUCTIONS.

6. NEITHER COMPANY IS SANGUINE ABOUT POSSIBILITIES. BOTH FEEL GOK CAN SELL DIRECTLY SUFFICIENT CRUDE (RALSTON ESTIMATES SALES OF 1 MILLION BBL/DAY WILL MEET KUWAIT'S MONEY REQUIREMENTS) TO MEET CONTINUING NEEDS. A NUMBER OF COMPANIES (SHELL, ELF AND RUMANIANS MENTIONED) ARE BELIEVED WILLING TO OPERATE FIELDS. BP IS NOT INTERESTED IN FURTHER JOINT-VENTURES WITH GOK, I.E., IN PETROCHEMICAL AREA. ACCESS TO CRUDE, EXCEPT TO MEET OWN NEEDS, NO LONGER IMPORTANT. NEITHER COMPANY REMAINS WILLING TO CONTINUE SUBSIDIZE KUWAIT TANKER FLEET (BY FAVORABLE LONG-TERM CHARTERS). UNDER CIRCUMSTANCES, NEITHER COMPANY SEES COMPELLING NEED TO SETTLE SOLELY ON GOK TERMS. NEVERTHELESS, RALSTON, IN PARTICULAR, INDICATES DESIRE TO ARRIVE AT EVENTUAL SETTLEMENT IF GULF CAN GET SOMETHING MORE THAN GOK PRESENTLY PREPARED TO OFFER. HIS ATTITUDE SEEMS TO CONVEY NOTION THAT ASSURANCE OF STABILITY MORE IMPORTANT TO GULF THAN NEBULOUS SHORT-TERM ADVANTAGES THAT MIGHT BE GAINED FROM HOLDING OUT.

7. IN LONG EXCHANGE WE DISCUSSED REASONS FOR PRECIPITATE GOK ACTION IN SEEKING 100 PERCENT CONTROL. ALL AGREED PRESSURE FROM LOCAL NATIONAL ASSEMBLY PROBABLY OF MINIMAL IMPORTANCE. IT APPARENT MAJOR POLICY SHIFT OCCURRED JUST PRIOR TO RECENT OPEC
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 KUWAIT 01337 01 OF 02 261329Z

SUMMIT AND VISIT OF CROWN PRINCE TO SAUDI ARABIA. THEORIES RANGE FROM POSSIBILITY GOK MAY BE ATTEMPTING TO ANTICIPATE SAG ACTION, IS CONSPIRING WITH SAG OR IS MOVING TO THWART POSSIBLE SAG AGREEMENT WITH ARAMCO WHICH WOULD THREATEN VIABILITY OF EXISTING OPEC PRICE STRUCTURE. AREA POLITICAL CONSIDERATIONS AND POSSIBLE GOK INTEREST IN ESTABLISHING FIRM FORWARD COMMITMENTS TO PROTECT ITSELF IN POSSIBLE FUTURE PRO-RATIONING DISCUSSIONS IN OPEC ALL CONSIDERED. ONLY AGREEMENT REACHED IS THAT GOK PROBABLY

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 KUWAIT 01337 02 OF 02 261329Z

42

ACTION SS-25

INFO OCT-01 ISO-00 /026 W

----- 110218

P R 261226Z MAR 75

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC PRIORITY 2594

INFO AMEMBASSY ABU DHABI

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY

AMEMBASSY TEHRAN

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 2 OF 2 KUWAIT 1337

EXDIS

WILL NOT HESITATE TO NATIONALIZE THE TWO COMPANIES' REMAINING
40 PERCENT INTEREST IF VOLUNTARY AGREEMENT CANNOT BE REACHED.
GOK IS NOW PUBLICLY COMMITTED TO THIS COURSE AND OBVIOUSLY
HAS ABANDONED MORE CAUTIOUS POLICIES OF FORMER OIL AND FINANCE
MINISTER ATEEQL.

8. COMMENT: AT CONCLUSION MEETING, BOTH RALSTON AND MARSON-SMITH
AGREED TWO COMPANIES SHOULD FOLLOW ADVICE OFFERED IN WASHINGTON
AND ATTEMPT HOLD FIRM, STALLING NEGOTIATIONS AS LONG AS
POSSIBLE. RALSTON BELIEVES IT UNLIKELY DECISION CAN BE DELAYED
LATER THAN MAY 1.
STOLTZFUS

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: NATIONALIZATION, PETROLEUM INDUSTRY, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 26 MAR 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975KUWAIT01337
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750105-0631
From: KUWAIT
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750314/aaaaamnm.tel
Line Count: 207
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: 75 KUWAIT 1160, 75 (NOTALONDON 04366
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 22 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 MAY 2003 by ifshinsr>; APPROVED <27 MAY 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GULF/BP TALKS WITH GOK
TAGS: ENRG, KU, BP, GULF, KUWAIT OIL CO
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006